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Appendix IV.

[Vide resolution moved by the Hon. Sri V. V. Giri at the meeting of the Legislative Council held on the 11th September 1946, page 402 supra.]

Explanatory note.

In Notification No. 469, dated the 11th August 1943, published at pages 765–766, Part I of the *Fort St. George Gazette*, dated 17th August 1943, His Excellency the Governor under sub-section (2) of section 6 of Madras Co-operative Land Mortgage Banks Act, 1934, increased the maximum amount of the guarantee given by the Government in respect of the debentures issued by the Madras Co-operative Central Land Mortgage Bank, Limited, to a total face value of Rs. 350 lakhs exclusive of such debentures as the bank might from time to time redeem.

2. The debentures issued by the bank under section 6 of the Act and outstanding on 13th August 1946, amounted to Rupees 3,49,57,300. The margin available in the existing guarantee is therefore negligible. The bank can avail itself of temporary accommodation from the Government only to the extent of the margin available between the maximum guaranteed and the debentures in circulation. The bank has therefore requested the Government to increase the guarantee up to Rs. 500 lakhs immediately. The loan transactions of the bank during 1944–45 amounted to Rs. 24:76 lakhs and although final figures are not available it is expected that they will amount to about Rs. 41 lakhs in 1945–46. The rise in the loan transactions of the bank during the current year may not represent the peak and there is every possibility of the bank issuing more loans in the next year. The Registrar of Co-operative Societies estimates that the loan transactions, even at their peak are not likely to exceed Rs. 60 lakhs next year and recommends that as Rs. 10 lakhs will be obtained by the redemption of existing debentures it will be sufficient if the guarantee is raised by Rs. 50 lakhs, i.e., up to a maximum of Rs. 400 lakhs.

3. In 1940, the Reserve Bank of India requested this Government to define their future policy in regard to guarantee of the debentures of the Central Land Mortgage Bank with a view to enable it to decide whether it can make advances under section 17 (4) of the Reserve Bank of India Act. The Government then informed the Reserve Bank that it was and had always been the intention eventually to end the guarantee system, that they considered desirable to continue, if necessary, on a restricted scale, the guarantee arrangements for the duration of the war and that in the section 93 situation they were not in a position to lay down a long-term policy in the matter with any definite prospects of it being followed by a popular Ministry.

4. There is a general apprehension that there will be no limit to the amount that will have to be guaranteed by Government.

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This fear is really groundless. A stage will be reached when safe business on the present lines will be stabilized or in other words, the amount of debentures redeemable every year will be equal to the amount of debentures floated, a fresh issue resulting in no further increase. The Central Land Mortgage Bank will not be able to raise money as cheaply as it is now doing if the guarantee is withdrawn while the burden of the higher rate of interest will ultimately fall on the cultivators. Any decision on the future policy should be taken after a full examination of its implications and an abrupt withdrawal is inadvisable as it is calculated to have serious repercussions on the future of the bank. Even the Reserve Bank which has consistently advocated the ending of the guarantee, contemplates the drawing up of a scheme for terminating the guarantee over a period of years. It has also agreed to five crores as the maximum upper limit of the Government guarantee.

The Government therefore propose to accept the Registrar's recommendation and raise the guarantee from Rs. 350 lakhs to a total of Rs. 400 lakhs and take up immediately for examination the question of the future policy of Government in regard to the guarantee of Central Land Mortgage Bank debentures.

TAMIL NADU LEGISLATIVE ASSEMBLY
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